



# **MEDIUM TERM BUDGET**

**2016/17- 2018/19**

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## GLOSSARY OF TERMS AND ACRONYMS

### Acronym

- Budget Steering Committee** : A strategic planning forum aimed at identifying key spending priorities for the municipality
- Budget related policies** : Policies of a municipality that affect or are affected by the budget.
- CAPEX**: Capital expenditure, spending on municipal assets such as land, buildings, roads, etc.
- CPIX**: Consumer price index excluding interest on mortgages
- CPI**: Consumer price index
- GAAP**: Generally Accepted Accounting Practice
- COGTA**: Cooperative Governance and Traditional Affairs
- GRAP**: Generally Recognised Accounting Practice
- FBS**: Free basic services
- IDP**: Integrated Development Plan, a strategic document detailing the City's medium term plan for development.
- IGR**: Intergovernmental relations
- ICT**: Information and communication technology
- LED**: Local economic development
- MFMA**: Municipal Financial Management Framework, Act 56 of 2003, legislation providing a framework for financial management in local government.
- MIG**: Municipal Infrastructure Grant
- MSA**: Municipal Systems Act, Act 32 of 2000.
- MTB**: Medium Term Budget, a three year financial plan of a municipality.
- MTBPS**: Medium Term Budget Policy Statement
- NT**: National Treasury of South Africa
- OPEX**: Operating expenditure, spending on the day to day operational activities such as salaries and wages, repairs and maintenance, general expenses.
- SALGA**: South African Local Government Association
- SDBIP**: Service Delivery and Budget Implementation Plan, a detailed plan containing quarterly performance targets and monthly budget estimates.

## LIST OF VOTES

-  Mayoral Executive
-  Council General
-  Office of the Municipal Manager
-  Budget and Treasury
-  Corporate Services
-  Licensing and Traffic
-  Local Economic Development and Planning
-  Sports and Culture
-  Public Works
-  Cemeteries
-  Community hall and centres
-  Parks and Recreation
-  Library
-  Town Hall and Offices
-  Housing
-  Sanitation
-  Refuse Removal
-  Electricity
-  Water

## PURPOSE

The main strategic outcomes of the budget are to ensure:

- ✚ Modernizing financial management and improving accountability.
- ✚ Compilation of three year budgets.
- ✚ Deepening and improving the budget preparation process, by involving the political leadership and community.
- ✚ Ensuring that the IDP and Budget are linked, and that the IDP takes account of budgetary resources, and contain proper capital and operational plans.
- ✚ Improving the in-year implementation of the budget.
- ✚ Improving the audit and performance reporting after the financial year has ended.

The purpose of this document is to submit draft 2016/17 medium-term budget (MTB) consideration by Council and community consultation of on the proposed tariff increases, projects and service delivery programmes.

The budget was compiled within the framework of the MFMA, Circular No: 78 the National Treasury and the New Municipal Budget Regulations.

Those Circulars provides instructions, guidance and information on crucial issues that municipalities need to consider when preparing their 2016-17 budgets.

# PART 1



## CHAPTER1: EXECUTIVE SUMMARY



## CHAPTER1: EXECUTIVE SUMMARY

The preparation of the 2016/2017 Municipality's Medium Term Revenue and Expenditure Framework (MT REF) was an extremely challenging one as various factors, with considerable potential impacts on core service delivery cost and revenue components influenced the outcome of this MTREF. Some of the major factors are the increased demand in the basic services which puts a huge burden on the bulk and reticulation infrastructure of the municipality. The implementation of the pre-paid meter system will have a great impact on the operational expenditure of the municipality for the coming four years. The municipality is also faced with the future challenge in terms of the maintenance of the expected infrastructure under construction from the provincial government as this will have an impact on future services tariffs.

The 2016/2017 MTREF also has to take the National Development Plan and the National Priorities into consideration. The major contribution by the Municipality to the National Development Plan is through improving the lives of Kgetlengrivier Community through poverty alleviation and rural infrastructure development and thereby creating jobs for the previously disadvantaged.







A critical review was also undertaken of expenditure on noncore and nice to have items. The municipality has also taken a step in reducing the expenditure on social activities in the 2016/2017 financial year. In order to improve the financial viability and sustainability of services, the municipality has embarked on implementing a range of collection strategies to optimize collection of revenue owed by consumers.

The budget was prepared with an assumption that the growth associated with the new mines will start to impact on the basic service delivery of the Municipality and will peak in the outer financial years.

The MTREF-based revenue and expenditure projections assumed inflation-linked annual adjustments of 6.6%, 6.2% and 5.9% respectively for the 3-years budget period of 2016/2017, 2017/2018 and 2018/2019. This remains within the boundaries of the inflation target of 3%-6%.

Further key parameters applied to the municipality financial framework included the following for the 2016/2017 financial year:

Revenue/tariff increases

|  |      |
|--|------|
|  Rates                          | 6,6% |
|  Electricity                    | 9,4% |
|  Water                          | 6,6% |
|  Sanitation                     | 6,6% |
|  Refuse                         | 6,6% |
|  Salaries and Wages adjustments | 7%   |
| General expenses   | 6,6% |
| Repairs & maintenance  | 6,6% |

The application of sound financial management principles for the compilation of the local wide financial plan is essential and critical to ensure that the Local remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The Local business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low- to high-priority programmes so as to maintain sound financial stewardship. A critical review was also undertaken of expenditures on noncore and 'nice to have' items.

The municipality has undertaken various customer care initiatives to ensure the municipality truly involves all citizens in the process of ensuring a people lead government.

National Treasury's MFMA Circular No. 77, 78, 79 and 82 were used to guide the compilation of the draft 2016/17 MTREF.

The main challenges experienced during the compilation of the 2016/17 MTREF can be summarised as follows:

- The ongoing difficulties in the national and local economy;
- Aging and poorly maintained water & sanitation, roads and electricity bulk infrastructure;
- The need to re-priorities projects and expenditure within the existing resource envelope given the cash flow realities and the cash position of the municipality;
- The need to fill critical vacancies and to attract skilled labour through competitive remunerations;
- Affordability of capital projects – the municipal allocation relating to infrastructure grant associated with capital investment is limited (Municipal Infrastructure Grant), thus limit the functions of the Local in

relation to bulk infrastructure investment for the budget year 2016/17 MTREF and beyond; and

- Availability and/or affordable capital/borrowing.

The following budget principles and guidelines directly informed the compilation of the 2016/17 MTREF:

- The 2015/16 Adjustment Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were adopted as the upper limits for the new baselines for the 2016/17 annual budget;
- Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
- There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;

# CHAPTER 2: THE BUDGET

## THE BUDGET

In view of the aforementioned, the following table is a consolidated overview of the proposed 2016/17 Medium-term Revenue and Expenditure Framework:

**Table 1 Consolidated Overview of the 2016/17 MTREF**

| <b>R thousand</b>                   | <b>Original Budget<br/>2015/16<br/>(R'000)</b> | <b>Adjusted budget<br/>2015/16<br/>(R'000)</b> | <b>Budget Year<br/>2016/17<br/>(R'000)</b> | <b>Budget Year +1<br/>2017/18<br/>(R'000)</b> | <b>Budget Year +2<br/>2018/19<br/>(R'000)</b> |
|-------------------------------------|--|--|--|---|---|
| Total Operating Revenue             | 143 873  | -  | 147 624                                    | 168 610                                       | 177 998                                       |
| Total Operating Expenditure         | 131 131  | -  | 157 850                                    | 172 487                                       | 191 465                                       |
| Surplus /<br>(Deficit) for the year | 12 742   | -  | (10 226)                                   | (3 877)                                       | (13 467)                                      |
| Total Capital Expenditure           | 27 852   | -  | 34 769                                     | 28 501  | 30 210  |

Total operating revenue has increased by 3 per cent or R3,7 million for the 2016/17 financial year when compared to the 2015/16 original budget. For the two outer years, operational revenue will increase by 12 and 5 per cent respectively. Increase in electricity tariffs and grants are the main reasons for growth in the revenue budget.

Total operating expenditure for the 2016/17 financial year has been appropriated at R172 million and translates into a budgeted deficit of R10,2 million, when compared to the 2015/16 original budget, operational expenditure has increased by 17 per cent in the 2016/17 budget and continues to grow by 8 and 10 per cent for the 2017-18 and 2018-19 respectively. The growth could be attributed to bulk purchases, repairs and maintenance, salaries and inflationary increases.

The operating deficit for the two outer years steadily decrease to R3,8 million and then increases to R13,4 million. These surpluses will be used to fund

capital expenditure to enhance infrastructure as well as plant machinery needed for service delivery.

The capital budget for 2016/17 is R34, 7 million. The capital programme amounts to R28,5 million in the 2017/18 financial year and R30,2 million in 2018/19 financial year. The most of the capital budget will be funded from grants (Municipal Infrastructure Grant and Provincial Infrastructure Grant) and own source revenue realized from savings in the operating revenue over MTREF.

### ***Operating Revenue Framework***

For Kgetlengrivier Local Municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty.

The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
- Growth in the and continued economic development;
- Efficient revenue management;
- Customer Survey and Data Purification Project;
- Continuous interim valuations of the properties
- Implementation of Debt Collection By-Laws

The following table is a summary of the 2016/17 MTREF (classified by main revenue source):

**Table 2 Summary of revenue classified by main revenue source**

| Description  | Ref      | Current Year 2015/16 |                 |                    |                   | 2016/17 Medium Term Revenue & Expenditure Framework |                        |                        |
|--|----------|----------------------|-----------------|--------------------|-------------------|---|------------------------|------------------------|
|  |          | Original Budget      | Adjusted Budget | Full Year Forecast | Pre-audit outcome | Budget Year 2016/17                                 | Budget Year +1 2017/18 | Budget Year +2 2018/19 |
| <b>R thousand</b>  | <b>1</b> |                      |                 |                    |                   |   |                        |                        |
| <b>Revenue By Source</b>   |          |                      |                 |                    |                   |   |                        |                        |
| Property rates   | 2        | 6,704                | –               | 6,704              | 6,704             | 7,146   | 7,589                  | 8,037                  |
| Property rates - penalties & collection charges                      |          |                      |                 |                    |                   |   |                        |                        |
| Service charges - electricity revenue                                | 2        | 36,905               | –               | 36,905             | 37,193            | 41,563  | 45,432                 | 51,440                 |
| Service charges - water revenue                                      | 2        | 8,812                | –               | 8,812              | 7,526             | 8,989   | 9,551                  | 12,239                 |
| Service charges - sanitation revenue                                 | 2        | 3,850                | –               | 3,850              | 2,376             | 4,001   | 4,254                  | 6,500                  |
| Service charges - refuse revenue                                     | 2        | 1,924                | –               | 1,924              | 1,221             | 2,001   | 2,128                  | 3,213                  |
| Service charges - other  |          |                      |                 |                    |                   | –   | –                      | –                      |
| Rental of facilities and equipment                                   |          | 131                  |                 | 131                | 131               | 140   | 149                    | 157                    |
| Interest earned - external investments                               |          | 590                  |                 | 590                | 590               | 628   | 667                    | 707                    |
| Interest earned - outstanding debtors                                |          | 3,684                |                 | 3,684              | 3,684             | 3,927   | 4,170                  | 4,416                  |
| Dividends received   |          |                      | –               |                    |                   | –   | –                      | –                      |
| Fines  |          | 4,121                |                 | 4,121              | 4,121             | 3,393   | 3,666                  | 3,741                  |
| Licences and permits   |          | 8,495                | –               | 8,495              | 8,495             | 8,056   | 8,417                  | 9,085                  |
| Agency services  |          |                      |                 |                    |                   | –   | –                      | –                      |
| Transfers recognised - operational                                   |          | 67,226               |                 | 67,226             | 67,226            | 66,241  | 80,951                 | 76,908                 |
| Other revenue  | 2        | 1,431                | –               | 1,431              | 1,431             | 1,539   | 1,635                  | 1,555                  |
| Gains on disposal of PPE   |          |                      |                 |                    |                   | –   | –                      | –                      |
| <b>Total Revenue (excluding capital transfers and contributions)</b> |          | <b>143,873</b>       | <b>–</b>        | <b>143,873</b>     | <b>140,697</b>    | <b>147,624</b>                                      | <b>168,610</b>         | <b>177,998</b>         |

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit. Operating grants and transfers forms a significant percentage of the revenue basket for the municipality. Operating grants and transfers totals R66, 2 million (which represents 45% of the operating budget) in the 2016/17 financial year and increase to R80, 9 million and R76, 9 million in the 2017/2018 and 2018/19 respectively.

Electricity is the major source of own income at 23% (R37, 1 million in the 2016-17 financial year).

**Table 3 Operating Transfers and Grant**

## Receipts

| Description<br>R thousand                       | 2016/17 Medium Term Revenue & Expenditure Framework |                           |                           |
|---|---|---------------------------|---------------------------|
|   | Budget Year<br>2016/17                              | Budget Year +1<br>2017/18 | Budget Year +2<br>2018/19 |
| <b>RECEIPTS:</b>                                |   |                           |                           |
| -   |   |                           |                           |
| <u><b>Operating Transfers and Grants</b></u>    |   |                           |                           |
| <b>National Government:</b>                     | <b>66,241</b>                                       | <b>80,951</b>             | <b>76,908</b>             |
| Local Government Equitable Share                | 62,494  | 68,606                    | 74,308                    |
| Finance Management                              | 2,010   | 2,345                     | 2,600                     |
| Municipal Systems Improvement                   |   |                           |                           |
| EPWP Incentive                                  | 1,737   | -                         | -                         |
| Electricity Demand Side Management              | -   | 10,000                    | -                         |
| <b>Provincial Government:</b>                   | -   | -                         | -                         |
| Library Grant                                   |   |                           |                           |
| <b>District Municipality:</b>                   | -   | -                         | -                         |
| <i>Bojanala Platinum District Municipality</i>  |   |                           |                           |
| <b>Other grant providers:</b>                   | -   | -                         | -                         |
| <i>LGSETA</i>                                   |   |                           |                           |
| <b>Total Operating Transfers and Grants</b>     | <b>66,241</b>                                       | <b>80,951</b>             | <b>76,908</b>             |
| <u><b>Capital Transfers and Grants</b></u>      |   |                           |                           |
| <b>National Government:</b>                     | <b>22,915</b>                                       | <b>24,501</b>             | <b>25,710</b>             |
| Municipal Infrastructure Grant (MIG)            |   |                           |                           |
| Dwae  | 9,500   | -                         | -                         |
| <b>Total Capital Transfers and Grants</b>       | <b>32,415</b>                                       | <b>24,501</b>             | <b>25,710</b>             |
| <b>TOTAL RECEIPTS OF TRANSFERS &amp; GRANTS</b> | <b>90,302</b>                                       | <b>106,677</b>            | <b>103,904</b>            |

## Operating Expenditure Framework

The Municipality's expenditure framework for the 2016/17 budget and MTREF is informed by the following:

- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital programme is aligned to the asset renewal strategy and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Strict adherence to the principle of *no project plans no budget*. If there is no business plan no funding allocation can be made.

The following table is a high level summary of the 2016/17 budget and MTREF (classified per main type of operating expenditure):

**Table 4 Summary of operating expenditure by type**

| Description<br>R thousand       | Current Year 2015/16 |                 | 2016/17 Medium Term Revenue & Expenditure Framework |                        |                        |
|---------------------------------|----------------------|-----------------|---|------------------------|------------------------|
|                                 | Original Budget      | Adjusted Budget | Budget Year 2016/17                                 | Budget Year +1 2017/18 | Budget Year +2 2018/19 |
| Employee related costs          | 40,279               | –               | 43,112  | 46,992                 | 51,222                 |
| Remuneration of councillors     | 4,454                |                 | 4,810   | 5,243                  | 5,715                  |
| Debt impairment                 | 5,197                |                 | 5,540   | 5,884                  | 6,231                  |
| Depreciation & asset impairment | 1,940                | –               | 23,348  | 28,751                 | 36,179                 |
| Finance charges                 | 366                  |                 | 500   | 500                    | 500                    |
| Bulk purchases                  | 18,540               | –               | 30,024  | 32,811                 | 35,854                 |
| Other materials                 | 51                   |                 | 54  | 58                     | 61                     |
| Contracted services             | 4,941                | –               | 6,768   | 7,494                  | 8,124                  |
| Transfers and grants            | 38,931               | –               | –   | –                      | –                      |
| Other expenditure               | 16,433               | –               | 47,193  | 48,254                 | 51,079                 |
| Loss on disposal of PPE         |                      | –               | –   | –                      | –                      |
| <b>Total Expenditure</b>        | <b>131,131</b>       | <b>–</b>        | <b>157 850</b>                                      | <b>172 487</b>         | <b>191 465</b>         |

The budgeted allocation for employee related costs for the 2016/17 financial year totals R43,1 million, which is less than 35 per cent of the total operating expenditure in line with the relevant guidelines. Based on the National treasury Guidelines, salary increases have been factored into this budget at a percentage increase of 5 per cent for the 2016/17 financial year. Key vacant positions have also been included in the employee costs. Bulk purchases of electricity are budgeted at R30 million (which represents 21% of the operating budget) in the 2016-17 financial year.



The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the municipality's budget. Notwithstanding, the above facts the Councillors projected increase has been estimated at 5 per cent in the 2016/2017 .

Due to the increasing legislative compliance requirement contracted services has been identified as one component that is increasing at cost for the Municipality. As part of the compilation of the 2016/17 MTREF this group of expenditure was critically evaluated and Head of Department had to motivate for this service to be included in the budget in line with circular 82. In the 2016/17 financial year, this group of expenditure totals R6, 7 million and has escalated by just 0.27 per cent. For the two outer years growth has been limited to 10 and 8 per cent. The costs of formalization of townships have also been included in the professional services for the 2016-17 budget.

Other expenditure comprises of various line items relating to the daily operations of the municipality. This group of expenditure has been identified as an area in which cost savings and efficiencies can be achieved. Growth has been limited to 5.4 per cent for 2016/17 and curbed at 5,6% and 5,4% per cent for the two outer years, indicating that significant cost savings have been already realised.

# PART 2

## CHAPTER 3: OVERVIEW OF THE ANNUAL BUDGET PROCESS



## CHAPTER 3: OVERVIEW OF THE ANNUAL BUDGET PROCESS

In terms of the Section 24 of the MFMA, Council must at least 30 days before the start of the financial year consider approval of the annual budget. The MFMA aims to put in place a sound financial framework and sets out timelines for budget preparations and approval.

IDP consultation and public hearings were held in all 6 wards of Kgetlengrivier Municipality between September and October 2015. Draft MTB estimates for the 2016-17 were determined and issued to all departments to prepare their draft budgets.

The draft MTB will tabled at a Council meeting to be held on 30 March 2016.

*The table below outlines the timelines for the overall process of Budget, Tariffs and IDP.*

| Budget Process  | Timeframe                 |
|---|---------------------------|
| IDP & Budget Process Schedule Preparation   | July 2015                 |
| Table Process Schedule in Council   | August 2015               |
| Steering Committee Establishment  | August 2015               |
| First External Consultation Process – Community and Sector Departments (Informal)                             | September to October 2015 |
| Issuing of final indicatives by Budget Office   | January 2016              |
| Submission of final draft tariffs, budgets and inputs to Budget Office  | February 2016             |
| Presentation of draft IDP, budget, tariffs, reviewed policies and reviewed IDP to Finance Portfolio Committee | March 2016                |
| Tabling of the draft budget, tariffs and IDP at Council   | March 2016                |
| Public participation on the tabled budget, tariffs and IDP  | April to May 2016         |
| Approval of final IDP and Budget by Finance Portfolio Committee   | May 2016                  |

|   |              |
|---|--------------|
| <b>Council approval of final Budget and IDP</b>   | May 2016     |
| <b>Approval of Business Plans, SDBIP and Section 57 Managers performance agreements</b> | 18 June 2016 |
| <b>Tariffs and by-laws promulgated in Provincial Government Gazette</b>                 | June 2016    |

## CHAPTER 4:

# OVERVIEW OF ALIGNMENT OF THE ANNUAL BUDGET

## CHAPTER 4: OVERVIEW OF ALIGNMENT OF THE ANNUAL BUDGET WITH THE IDP

The municipality's IDP contains the medium-term focus areas for development. These focus areas set the agenda for resource planning and allocation over the medium term.

Council has set the following priorities:

- ✚ A safe, clean and green municipality;
- ✚ A well-governed and managed municipality;
- ✚ Housing and services; and
- ✚ Economic growth and job creation.
- ✚ Deliver more and better services in a caring and efficient manner;
- ✚ Hold political office bearers and public servants accountable;
- ✚ Shift resources to new priorities;
- ✚ Move from debate to effective implementation and decisive action; and
- ✚ Work in partnership with communities, labour and business to achieve our shared objectives.

The 2016/17 budget continues to address the following IDP interventions:

### Local Economic Development

- ✚ A budget of **R 2,8 million** from own funding has been allocated for L.E.D projects and SMME development and career exhibition expo have also been planned.
- ✚ In the 2016/17 financial year, Kgetlengrivier Municipality intends to:
  - ✚ Resuscitate L.E.D projects that were previously initiated.
- ✚ Encourage small businesses, women and youth to form cooperatives.
- ✚ Implement its LED Strategy effectively in the 2016/17 financial years, through initiating ward based projects throughout the Municipality.

- ✚ Exploit all possibilities to source funds from Development Finance Institutions such as DTI, NDA, Mines, Donors, etc and big businesses on behalf of promising SMMEs in the Municipality.
- ✚ Build enough institutional capacity to establish effective Tourism, Agriculture and LED forums.
- ✚ Insist on encouraging the Municipality to register all its infrastructure development projects with EPWP from which general public can participate, learn while also building enough capacity to create new entrepreneurs.
- ✚ Request assistance from institutions such as CIDB, NHBRC and SEDA to train emerging contractors in construction and facilitate their accreditation.
- ✚ Develop an Investment Incentive Scheme/Policy so as to attract new investment in the Municipality.
- ✚ Kgetleng Show
- ✚ Land availability for NGOs and Churches
- ✚ Paving brick making plant
- ✚ Letsema project will also be implemented to improve service delivery and job creation.

### **Infrastructure and Service delivery**

This KPA is performed through Technical Services and Community Services Directorates. The municipality renders the following basic services to the residents in the urban areas; Water Provision; Sewerage Disposal; Refuse Removal and Electricity Provision. Other services rendered by the municipality to residents, include; Streets and Storm Water , Parks, Sports and Recreational Facilities; Cemeteries, Libraries, Primary Health Care, Traffic Control, Housing and Town Planning.

Households with access to the following services in Kgetlengrivier as compared to the North West Province (ranking 7 nationally) is depicted in the table below;

|  | North West | Kgetlengrivier | Backlog |
|--|------------|----------------|---------|
| <b>Electricity</b>                     | 78,3%      | 95,5%          | 4,5%    |
| <b>Piped water</b>                     | 89,9%      | 91,8%          | 8,2%    |
| <b>Full or intermediate sanitation</b> | 53,4%      | 87,5%          | 12,5%   |
| <b>Refuse removal Services</b>         | 48,81%     | 94%            | 6%      |

Table 5 Summary of Capital expenditure by type

| Vote Description<br>R thousand               | 2016/17 Medium Term Revenue & Expenditure Framework |                           |                           |
|--|---|---------------------------|---------------------------|
|  | Budget Year 2016/17                                 | Budget Year +1<br>2017/18 | Budget Year +2<br>2018/19 |
| Capital single-year expenditure sub-total    | -   | -                         | -                         |
| Total Capital Expenditure - Vote             | -   | -                         | -                         |
| <b><u>Capital Expenditure - Standard</u></b> |   |                           |                           |
| <i>Governance and administration</i>         | 3,500   | 4,000                     | 4,500                     |
| Executive and council                        | 3,500   | 4,000                     | 4,500                     |
| Budget and treasury office                   |   |                           |                           |
| Corporate services                           |   |                           |                           |
| <i>Community and public safety</i>           | -   | -                         | -                         |
| Community and social services                |   |                           |                           |
| Sport and recreation                         |   |                           |                           |
| Public safety                                |   |                           |                           |
| Housing                                      |   |                           |                           |
| Health                                       |   |                           |                           |
| <i>Economic and environmental services</i>   | -   | -                         | -                         |
| Planning and development                     |   |                           |                           |
| Road transport                               |   |                           |                           |
| Environmental protection                     |   |                           |                           |
| <i>Trading services</i>                      | 24,061  | 25,726                    | 26,996                    |
| Electricity                                  |   |                           |                           |
| Water  | 24,061  | 25,726                    | 26,996                    |
| Waste water management                       |   |                           |                           |
| Waste management                             |   |                           |                           |
| <i>Other</i>                                 |   |                           |                           |
| <b>Total Capital Expenditure - Standard</b>  | <b>27,561</b>                                       | <b>29,726</b>             | <b>31,496</b>             |
| <b><u>Funded by:</u></b>                     |   |                           |                           |
| National Government                          | 24,061  | 25,726                    | 26,996                    |
| Provincial Government                        |   |                           |                           |

|                                  |               |               |               |
|----------------------------------|---------------|---------------|---------------|
| District Municipality            |               |               |               |
| Other transfers and grants       |               |               |               |
| Transfers recognised - capital   | 24,061        | 25,726        | 26,996        |
| Public contributions & donations |               |               |               |
| Borrowing                        |               |               |               |
| Internally generated funds       | 3,500         | 4,000         | 4,500         |
| <b>Total Capital Funding</b>     | <b>27,561</b> | <b>29,726</b> | <b>31,496</b> |

Kgetlengrivier Municipality Water, Sanitation, Electricity, Cemeteries and Roads **Infrastructure Budget** for 2016/17 amounts to **R34,7 million**, then increases to R28,5 million and increases to R30,2 million the 2017-18 and 2018-19 respectively.



## **CHAPTER 5: MEASURABLE PERFORMANCE OBJECTIVES AND INDICATORS**

Refer to the IDP and Service Delivery and Budget Implementation Plan for measurable performance objectives

## **CHAPTER 6: OVERVIEW OF BUDGET-RELATED POLICIES**

Budgeting is central to the process of prioritising for service delivery and the management of the functions of Council.

The municipality's budgeting process is guided and governed by relevant legislation and budget related policies.

### **Revenue Framework**

Section 18 of the MFMA states that the budget can only be funded by realistically anticipated revenue to be collected and cash-backed accumulated funds from previous years, not committed for other purposes. In addition, NT Circular 42 stipulates that the budget is to be managed in a full accrual manner, reflecting a transparent budget and accounting system approach.

The MFMA requires the municipality to adopt and implement a tariff policy. Council has approved such policies for all major tariff-funded services provided by the municipality, which are attached as annexure to this document.

Council is required to adopt budgetary provisions based on realistic anticipated revenue for the budget year from each revenue source and per requirements of the MFMA (chapter 4, s17 (1) (a) (b)).

The following are the key policies that were reviewed during the 2016-17 budget process;

### **Revenue related policies**

#### **General Tariff Policy**

The Municipal System Act requires Council to adopt a Tariff policy. The general financial management function covered in section 62 of the MFMA includes the implementation of a tariff policy. Specific legislation applicable to each service has been taken into consideration when determining this policy,

The General Tariff Policy is attached

#### **Credit Control and Debt Collection Policy**

This Policy has been formulated in terms of section 96 (b) and 98 of the Local Government Municipal System Act, 2000 and the Credit Control and Debt Collection By-Law.

**The Policy also includes the Indigent Policy attached**

### **Budget related policies**

The following budget related policies have been approved by Council, or have been reviewed/amended and or are currently being reviewed/amended, in line with National Guidelines and Legislation.

### **Supply Chain Management Policy**

Section 111 of the MFMA requires each Municipality and municipal entity to adopt and implement a supply chain management policy, which gives effect to the requirements of the Act.

**The Supply Chain Management policy for the Municipality is attached as Annexure F.**

### **Rates Policy**

Property Rates Policy in accordance with section 3 of MPRA has been approved during May 2013 and is attached

### **Cash Management and Investment Policy**

The Municipality's Investment Policy, which leads with the management of the municipality's surplus cash resources and the investment thereof, was approved by Council in March 2014 and is attached as Annexure H.




### **Assets Management Policy**

Assets Management Policy and The objective of the Asset Management Policy is to prescribe the accounting administrative policies and procedures relating to Property, Plant & Equipment. This policy is in the process of being finalized and is attached.

### **Virement Policy**

The objective of the Virement Policy is regulate the shifting of funds between votes and sub-votes of an approved budget.

The following are the key policies that were reviewed during the 2016-17 budget process;

-  Subsistence and Travelling Policy
-  Overtime policy
-  Cellphone and 3G Cards Policy

Refer to **Annexure 1** for proposed amendments on the above policies.

## CHAPTER 7: TARIFF LISTS

Refer to the **Annexure 2** for detailed tariff list.

## CHAPTER 8: OVERVIEW OF BUDGET ASSUMPTIONS

Budget assumptions provide a comprehensive summary of all assumption made in preparing the budget proposals. Macro and micro economic matters, internal and external factors are taken into consideration.

The 2016/17 – 2018/19 Medium Term Budget has been prepared within a highly volatile and highly uncertain economic environment, making the budgeting process even more challenging.

The MTREF model, which enables economics forecasts and the eventual medium term fiscal framework, was compiled under harsh external economic conditions. Budgetary constraints and economic challenges meant that the municipality applies a combination of cost-saving interventions to ensure an affordable credible and sustainable budget over the 2016/2017 MTREF.

The biggest challenge this year was the increasing need for services which resulted in a need to finance the increase of the bulk infrastructure and also need to increase the personnel numbers in order to cater for the fast expanding town.

### Financial modelling

In addition to the above, further principles applied to the MT REF in determining the affordability envelope included:

- ✚ Higher than headline CPI revenue increases, to the extent that they affect and support Council's activities of relevant services.
- ✚ Credible collection rates, based on collection achievement to date, incorporating improved success anticipated on selected revenue items.

### CPI projections adopted over MTREF

CPI projections over the 2016/2017 MTREF is 6,6% for 2017/20167and the two outer years which is similar to the national treasury's forecasted CP I of 6,6%, 6,2% and 5,9% for 2016/2017, 2017/2018 and 2018/2019 respectively.

## EXPENDITURE FRAMEWORK

### Salaries, wages and related staff cost

- ✚ The promulgation of the Salary and Wage Collective Agreement by the South African Local Government Bargaining Council (SALGBC) provided the general salary adjustment guidelines for the period 01 July 2016 to 30 June 2017, In 2016/2017 a salary increase of 7% was calculated using National Treasury Circular 75.

### Repairs and maintenance

- ✚ The National Treasury Budget Circular 76 for the 2016/2017 MTREF stated amongst other, that municipalities must "secure the health of their assets base ending (especially the municipality's revenue generating assets) by increasing on repairs and maintenance". The increase in spending on repairs and s mart pre maintenance is due to the replacement of conventional meters by new paid meters.

## REVENUE FRAMEWORK

### Service growth

- ✚ The municipality's revenue will increase by 7.84% which attributable to inflationary municipality adjustments embarked upon on tariffs which and will the bring data in cleansing extra revenue

### Water and sanitation

- ✚ The revenue parameter adjustment for both water and sanitation was modeled at 6,6% for 2015/2016

## Collection Rate

- In accordance with relevant legislation and national directives the municipalities projected revenue recovery rates are based on realistic and sustainable.

The municipality's projected collection ratios are as per the table below.

| <b>SERVICE</b> | <b>BASE<br/>BUDGED<br/>2015/2016</b> | <b>2016/2017</b> | <b>2017/2018</b> | <b>2018/2019</b> |
|----------------|--------------------------------------|------------------|------------------|------------------|
| Property Rates | 75%                                  | 95%              | 95%              | 95%              |
| Electricity    | 85%                                  | 95%              | 95%              | 95%              |
| Water          | 60%                                  | 75%              | 95%              | 95%              |
| Sewerage       | 60%                                  | 75%              | 95%              | 95%              |
| Refuse         | 60%                                  | 75%              | 95%              | 95%              |
|                |                                      |                  |                  |                  |

The total collection rate for 2016/2017 is projected at an average of 95% and based on a combination of actual collection rates achieved to date and the estimated outcomes for the current financial period. The better than current projected collection rate is based on the fact that the Municipality will be implementing a prepaid system for electricity and also have appointed a service provider for debt collection.

## Depreciation

- Depreciation on new capital expenditure is calculated at a varying rate ranging between 3 to 30 years depending on the nature of the asset. Actual depreciation was modeled on



- existing assets. An annual capital expenditure implementation rate of 100% was factored into the model.
- ✚ The higher than usual depreciation is as a result of the implementation of GRAP17 where the Municipality's assets were revalued in the 2014/2015 financial year.

### **Division of Revenue Act**

- ✚ The Division of Revenue Bill for 2016/2017 was utilized to determine the Equitable Share, Councilors remuneration subsidy, Financial Management Grant, Municipal Systems Improvement Grant, and Municipal Infrastructure Grant and National Electrification Programme Grant.

### **Average Salary increases**

- ✚ National Treasury Guidelines stipulates that salaries for 2016-17 financial year will be increased by **7%**. Thus salaries, allowances and employee benefits were increased by the same percentage

### **Price movements on bulk purchases and other expenses**

- ✚ Bulk electricity purchases were increased by **9.4%** and electricity tariff increase by ....% (Still need to be approved by Nersa for municipal tariff) according to Eskom guidelines as approved by NERSA.
- ✚ Repairs and Maintenance, General expenses and Capital Expenditure were budgeted based on inputs from all departments within the municipality.

### **Inflation**

- ✚ According to MFMA circular no 79 issued by the National Treasury, inflation rate is expected to stay between 6 to 6.2 percent. Consumer price index for the 2016/17 is estimated at 6.6%.

### **Indigent Registration and Approval**

- ✚ The main challenge facing Kgetlengrivier municipality is registration and verification of indigents, currently the number of applications received are estimated at **7500** and this figure could increase to **8300** in the 2016/17 financial year.

## **Supply of Free basic Services**

- ✚ The increase in the number of indigents in the municipal area will mean that additional amount to be spent on indigent subsidies and write-offs.
- ✚ 6kl free basic water will be provided to residential consumers only.
- ✚ The municipality is in the process of finalizing database of beneficiaries of free basic electricity of 50kw/h per month and negotiations with Eskom are underway.

## **Collection rates for main revenue sources**

- ✚ Collection rate of the current year budget levies is estimated at 79%, the allocation of these receipts depend on priority according to the tariff policy.
- ✚ The municipality has planned to introduce credit control measures in the 2016-17 financial year and revenue collection will be increased from 79% to 95%.

## CHAPTER 9: OVERVIEW OF BUDGET FUNDING

### OVERVIEW OF BUDGET FUNDING

#### CAPITAL EXPENDITURE

The aging infrastructure assets of the Municipality requires that there is a constant investment and maintenance program, therefore the municipality has the provided R4 million from funded reserves for different capital expenditure year 2016/17

#### Fiscal Overview

##### Operating budget — Expenditure

The operating budget increased form R143,8 million in 2015/2016 to R147,8 2016/2017 and R168,8 million in 2017/2018 respectively.

The growth is mainly attributable to:

-  The increase in electricity and water cost
-  Increase in employment cost

#### Medium term capital budget and funding sources


The funding sources listed below are appropriated towards the following major projects on the capital budget:

##### National Grant Funded

-  Municipal Infrastructure grant to improve bulk infrastructure in support of housing opportunities

#### Rates, tariffs and other charges

##### Property Tax Rates

-  The proposed property rates are levied in accordance with existing council n ' policies unless otherwise indicated and both the Local Government Municipal Property Rates Act 2004 (MPRA) and the Local Government Municipal Finance Management Act 2003.

- ✚ Property Rates Policy was approved by council during May 2013, Property tax rates are based on values indicated in General Valuation Roll of 2015. The Roll is updated for properties affected by land sub-divisions, alterations to buildings, demolitions and new buildings (improvements) through Supplementary Valuation Rolls. Rebates and concessions are granted to certain categories of property usage and/or property owner.

## **Water and Sanitation**

- ✚ The proposed Water and Sanitation Tariffs for 2015/2016 are consistent With National Framework Policy for Water on the and provision Sanitation of free and basic with services, Council's the Indigent National relief strategies .

## **Rates, Tariff Policies and Equitable Service Framework.**

- ✚ The tariff increases are necessary to add essential operational requirement, ensure maintenance of existing infrastructure, new infrastructure provision and to the financial sustainability of the service.
- ✚ The progressive nature of existing domestic stepped tariff structure both for the water and sanitation is pro-poor and allows for the needs of the indigents. In total proposed Tariffs and Rates are cost-reflective and will provide the cover the costs of Water and Sanitation during the 2015/2016 financial year.

## **Electricity**

- ✚ The proposed revisions to the tariffs have been formulated in accordance with the Kgetlengrivier Local Municipality Tariff and Rates Policy and comply with Section 74 of the Municipal Systems Act as well as the recommendations of the National Energy Regulator of South Africa (NERSA)

- ✚ The Electricity Regulation Act requires that the proposed revisions to the electricity consumption based tariffs be submitted to the Regulator as soon as possible.

### **Cash backed accumulated surplus**

- ✚ Cash backed accumulated revenue surpluses are used to provide working capital and to temporarily fund capital expenditure. Operational cash flow deficits and surpluses are forecasted and managed on a daily basis within available cash resources and banking facilities.
- ✚ Statutory funds reserves, including unspent grants, are fully cash backed. Long term provisions are cash backed to extend that actual expenditure is projected for the budget year.

### **ALLOCATIONS AND GRANTS MADE BY THE MUNICIPALITY**

Grants-in-Aid refer to transfers of municipal funds to organizations or bodies assisting the Municipality in the exercise of powers of function in terms of section 67 of MFMA and do not constitute commercial or business contracts and transactions. Specific provision must be made in the Municipality's annual operating budget for Grants-in-Aid in terms of provisions contained in section 17(3) (j) of the MFMA.

### **LIGISLATION COMPLINCES STATUS**

Compliances with the MFMA implementation requirements have been substantially adhered to through the following activities:

#### **Budget and Treasury Office**

*A budget office and Treasury office has been established with the MFMA*

#### **Budgeting**

The annual budget is prepared in accordance with the requirements prescribed by the National Treasury and MFMA

### ***Financial reporting***

100% compliance with regards to monthly, quarterly and annual reporting to the Executive Mayor, Council, Provincial and National Treasury

### **Annual Report**

The annual report is prepared in accordance with the MFMA and National Treasury requirements.

### **Internship Programme**

The Kgetlengrivier Local Municipality is participating in the Municipal Finance Management Internship Programme and has employed 5 interns undergoing training in various finance sections.

## **Review of past performance**

### **Operating Revenue and expenditure (29 February 2016)**

*A summarised extract of the statement of financial performance is as follows:*

| Description                  | Approved Budget | Expenditure YTD | % Exp |
|------------------------------|-----------------|-----------------|-------|
| OPERATING REVENUE            |                 |                 |       |
| Property Rates               | 6,704,000       | 3,016,082       | 45    |
| Service Charges: Electricity | 36,905,000      | 13,091,963      | 35    |

|   |                    |                    |           |
|---|--------------------|--------------------|-----------|
| : Water   | 8,812,000          | 2,776,585          | 32        |
| : Sanitation  | 3,850,000          | 1,378,938          | 36        |
| : Refuse  | 1,924,000          | 750,576            | 39        |
| : Other   | -                  | -                  |           |
| Rental of facilities & equipment                              | 131,209            | 13,685             | 10        |
| Interest Earned - External Investments                        | 589,581            | 150,155            | 25        |
| Interest Earned - Outstanding debtors                         | 3,683,571          | 4,420,665          | 120       |
| Fines   | 4,121,275          | 148,900            | 4         |
| Licencing & permits   | 8,494,982          | 2,137,784          | 25        |
| Grants - Operating  | 67,225,900         | 65,962,000         | 98        |
| Other Revenue   | 1,431,000          | 7,749,831          | 542       |
| Total Operating Revenue                                       | 143,872,517        | 101,597,164        | 71        |
|   |                    |                    |           |
| Grants - Capital  | 23,318,000         | 11,659,000         | 50        |
| <b>Total Operating Revenue- including capital grant (MIG)</b> | <b>167,190,517</b> | <b>113,256,164</b> | <b>68</b> |

|                                    |                    |                   |           |
|------------------------------------|--------------------|-------------------|-----------|
| OPERATING EXPENDITURE              |                    |                   |           |
| Employee Cost - Wages & Salaries   | 40,278,650         | 23,131,198        | 57        |
| Remuneration Of Councillors        | 4,454,100          | 1,891,031         | 42        |
| Debt Impairment                    | 5,197,055          | -                 | -         |
| Depreciation                       | 1,939,931          | -                 | -         |
| Finance charges                    | 365,500            |                   | -         |
| Bulk purchases                     | 18,539,727         | 25,355,277        | 137       |
| Other materials                    | 50,823             | -                 | -         |
| Contracted Services                | 4,940,899          | 4,899,408         | 99        |
| General Expenses - Other           | 55,364,070         | -                 | -         |
| <b>Total Operating Expenditure</b> | <b>131,130,755</b> | <b>55,276,914</b> | <b>42</b> |
|                                    |                    |                   |           |
| <b>SURPLUS / (DEFICIT)</b>         | <b>12,741,762</b>  | <b>46,320,250</b> | <b>-</b>  |

## CHAPTER 10: EXPENDITURE ON TRANSFERS AND GRANT PROGRAMME

Refer to Table SA 19



## **CHAPTER 11: COUNCILLOR ALLOWANCES AND EMPLOYEE BENEFITS**

Refer to Table SA22, SA 23 and SA24 for more detailed information on personnel and payroll expenses.

## CHAPTER 12: LEGISLATION COMPLIANCE STATUS

The promulgation of the Municipal Finance Management Act (The Act) has brought in proficiency and control measures to local government in terms of budgeting, monitoring and accounting on public funds. The Act has had a profound effect on local government operations that required transformation in financial discipline and planning processes.

The budget preparation for 2016/17 to 2018/19 complies with most of these key requirements.

### Purpose and quality of MFMA returns

#### Section 71 Reports

- *Purpose – Status of municipal finance position*
- *Quality – The main challenge relates to reconciliation of accounts and this makes it difficult to provide the information timeously.*

#### Borrowing Monitoring Return Form

- *Purpose – Status of municipal long debt*
- *Quality – Information provided every quarter is based on confirmed balances in the previous year and payment made during the quarter.*

#### Budget Evaluation Checklist (Circular 10)

- *Purpose – Progress on compilation of budget*
- *Quality – Information is adequately provided as and when required.*

#### MFMA 12 Urgent Priorities (Circular 5)

- *Purpose – Implementation of MFMA*
- *Quality – Assessment and evaluation relating to progress made needs to be enhanced.*

#### Corporate Entities (Circular 5)

- *Purpose – To monitor compliance with S178 (2) of the MFMA*
- *Quality – The municipality does not have entities.*

#### PPP's (Circular 5)

- *Purpose – To monitor compliance with S178 (2) of the MFMA*
- *Quality – The municipality did not enter into any PPP's.*

#### Long Term Contracts

- *Purpose – To monitor compliance with S178 (2) of the MFMA*
- *Quality – Information required for this return is provided sufficiently.*

## Internal audit and audit committees

- ✚ The municipality has established the **internal audit** unit and is sharing Audit Committee with Bojanala District Municipality.

## Risk Plans

The municipality has not performed risk assessment for the 2015-16 financial year.

## Implementation of Supply Chain Management

Preferential policy objectives identified to be met through each contract.

- ✚ threshold values contained in the SCM Policy aligned with the values stipulated in regulation
- ✚ Records are kept for the following;
  - Written or verbal quotations received and awards made.
  - Tenders and all other bids received and awards made.
  - Petty Cash purchases

Supply Chain Management Unit has been established and relevant statutory reports are currently compiled.

- ✚ All the three bid committees have established, are functional but there is lack of capacity.

## Tabling of Section 71 Reports in Council

- ✚ Monthly 71 reports are tabled Council (Although not on time due to lack of capacity).

## Treasury Guidelines (Gazzeted)

- ✚ Treasury Guidelines relating to financial management, and budget preparation & implementation are adhered to and this has been included in the budget policy.

## Performance agreements

- ✚ Performance agreement was entered into between the Mayor and the Accounting Officer for 2015/16 financial year.
- ✚ Performance agreements were developed for 2015/16 financial year, and signed by all Section 57 managers.

## GRAP Implementation

- ✚ The municipality has prepared the 2014-15 Annual Financial Statements in line with GRAP.

 GRAP compliant Asset Register was prepared by JBFE through assistance from Provincial Treasury.

## **CHAPTER 13: RESOLUTIONS**

1. That in terms of section 24 of the Municipal Finance Management Act, 56 of 2003, the draft annual budget of the municipality for the financial year 2016/17; and indicative allocations for the two projected outer years 2017/18 and 2018/19; and the multi-year and single year capital appropriations be approved as set-out in the following tables:

1.1 Budgeted Financial Performance (revenue and expenditure by standard classification);

1.2 Budgeted Financial Performance (revenue and expenditure by municipal vote);

1.3 Budgeted Financial Performance (revenue by source and expenditure by type); and

1.4 Multi-year and single year capital appropriations by municipal vote and standard classification and associated funding by source.

2. That the financial position, cash flow, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets be adopted as set-out in the following tables:

2.1 Budgeted Financial Position;

2.2 Budgeted Cash Flows;

2.3 Cash backed reserves and accumulated surplus reconciliation;

2.4 Asset management; and

2.5 Basic service delivery measurement.

3. That in terms of section 24(2)(c)(i) and (ii) of the Municipal Finance Management Act, 56 of 2003 and sections 74 and 75A of the Local Government: Municipal Systems Act, Act 32 of 2000 as amended, the tariffs

for the supply of water, electricity, waste services, sanitation services and property rates that were used to prepare the estimates of revenue by source, be approved with effect from 1 July 2016.

4. That in terms of section 24(2)(c)(iii) of the Municipal Finance Management Act, 56 of 2003, the measurable performance objectives for capital and operating expenditure by vote for each year of the medium term revenue and expenditure framework as set out **Chapter 5** be approved.

## **CHAPTER 14: DETAIL BUDGETS PER DEPARTMENT**

The detailed draft annual budget for the financial year 2016/17; and indicative allocations for the two projected outer years 2017/18 and 2018/19; are as set-out in the Tables 1 to Table 10 and related schedules on SA1 to SA 37.



**COMPILED BY:**  
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